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201335Z Aug 03

UNCLAS SECTION 01 OF 02 ANKARA 005314

SIPDIS

SENSITIVE

FOR E, EB AND EUR/SE

E.O. 12958: N/A

TAGS: [ETRD](#) [EINV](#) [PREL](#) [ENRG](#) [TU](#)

SUBJECT: GETTING THE MOST OUT OF THE ECONOMIC PARTNERSHIP COMMISSION MEETING

1. (SBU) Summary: Embassy recommends an ambitious agenda for the next Economic Partnership Commission meeting, tentatively slated for October, as a way to advance our economic agenda with Turkey and bolster the broader bilateral relationship. We suggest sessions on economic reform, foreign direct investment (with private sector participation), trade, and regional cooperation, to include Iraq, Afghanistan and energy issues. The best prospects for achieving concrete results lie in the investment and regional cooperation arenas. We should, for example, shoot for concrete steps to resolve some of our long-pending investment problems, in return for which we could offer the Ambassador's participation in an FDI roadshow. We also might consider a session -- ideally with Iraqi participation -- to promote Turkish-Iraqi trade and move forward on some of Turkey's reconstruction proposals. End Summary.

2. (SBU) Embassy will discuss with the Foreign Ministry this week the idea of holding the next EPC meeting in Washington in early October. Assuming the meeting goes forward, one of our most pressing challenges will be in shaping Turkish expectations. The Turks saw the first EPC meeting in February 2002 in terms of what the U.S. could do for Turkey, and they will be inclined to view this one the same way, despite the changes in the relationship. We will need to work hard to make clear that this meeting is about building a partnership, not offering one-way benefits.

3. (SBU) Embassy recommends an ambitious agenda for the meeting, both to advance our full economic agenda and to provide the best opportunity to achieve tangible results that will boost bilateral relations. We suggest sessions on the key aspects of the economic relationship highlighted in U/S Larson's June 26 speech: economic reform, trade, foreign direct investment, and regional cooperation, with the latter including Iraq, Afghanistan, and regional energy issues. Such an ambitious agenda might require more than one full day.

4. (SBU) We could use the economic reform session to remind Turks that the key to enhancing bilateral trade and investment is for Turkey to continue to implement the reforms needed to stabilize the economy and improve the foreign investment environment. If the meeting roughly coincides with the release of the first disbursement under the new U.S. financial assistance package, we could think about announcing the disbursement at the EPC, though we note this could work against our goal of shifting the EPC's focus from unilateral benefits to bilateral partnership.

5. (SBU) On trade, we will want to note our concerns on market access, especially in agriculture, but also want to try to move the trade discussion off the textile/agriculture talking points that both sides have used, with few results, for the past several years. Options to consider include initiating a dialogue on how to manage the trade (and investment) relationship during Turkey's movement toward EU accession, or exploring ways to enhance cooperation in the WTO. The latter would fit nicely with our desire to focus more on regional and global cooperation. We also should decide whether to proceed with or kill the QIZ initiative.

6. (SBU) We expect the investment and regional cooperation sessions to offer the best prospects for concrete results. Private sector participation could be particularly helpful in the investment session. We recommend inviting representatives from U.S. companies with investments in Turkey, and asking the GOT to invite executives from Turkish companies with investments in the U.S. or which are working with U.S. investors here (eg. Koc, Enka). Together, these executives could discuss the keys to successful investments. We also will want to urge the GOT to take action to resolve

long-pending problems, including those affecting U.S. companies in the pharmaceutical, power, cola, and corn-based sweetener industries. We could offer the GOT, in return for concrete progress on some or all of these issues, the Ambassador's participation in a Turkish FDI roadshow in the U.S.

17. (SBU) The regional cooperation session could begin with a discussion of the East-West energy corridor, with the goal of deciding on next steps in bringing surplus natural gas to Europe. From that, we could segue into a discussion of Iraq-Turkey energy questions -- if there are any pressing issues -- and then discuss Iraq reconstruction/trade. Embassy suggests two possible goals: implementation of one or more of the Turkish reconstruction proposals discussed during FM Gul's recent visit; and holding a separate session -- preferably with Iraqi participation -- on Turkish-Iraqi trade, possibly as a first step toward some kind of customs arrangement to facilitate cross-border trade.

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